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Final Report
September 2003 to November 2004

Transparency and Anti-Corruption Task Order

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Through Task Order 810 the Mission sought to consolidate and reinforce accomplishments in transparency and anti-corruption that resulted from previous efforts as part of the program for the Reconstruction and Transformation of Honduras after Hurricane Mitch.

In view of the country's rating as one of the most corrupt in the world as well as one of the least developed in Latin America, the continuation of these activities was an important bridge to a broader long-term strategy under development by the Mission. The Task Order was funded from September 15, 2003 through September 30, 2004, later extended to November 20, 2004.

A major objective of this effort was the continuation of support to and strengthening of the capacity of the *Tribunal Superior de Cuentas* (TSC) in its function to audit public funds, an objective that dates back to the initial transparency program based upon a Memorandum of Understanding (MOU) dated January 26, 1999 between the then Office of the Comptroller General of Honduras (CGR) and USAID. Basic to this support was the performance requirement to maintain the audit capability over time of the Unit for Audit of Projects of International Organizations (UAPOI). In addition, and in support of the GOH's decentralization efforts, USAID initiated support to the TSC's Department of Municipal Audit (DASM). This office has the responsibility for conducting audits of the 298 Honduran municipalities and verifying that all meet the requirement for reporting on the execution of funds transferred annually from the Central Government.

As required by the Task Order, Casals & Associates, Inc (C&A) conducted a short term diagnostic of the two TSC offices designated as recipients of USAID technical assistance, one of the TO's deliverables. The investigation focused on organizational structures, functions, needs in the areas of equipment, personnel and training. The findings, presented on October 7, 2003, validated an obstacle that the USAID program had encountered for several years. Both offices are understaffed, as authorized positions go unfilled for lack of budget resources, and suffer from the inadequate educational preparation for the responsibilities assigned to the auditors.

The facilities of UAPOI had been remodeled and equipped via the original Task Order under reconstruction funds. For this reason, the need for additional equipment was determined to be very limited, mostly upgrades to that still in place. Of greater concern was the need for a stronger commitment to a continuous training program, including participation in international events, not only for the purpose of raising the capacity of personnel, but also, as an entity certified for conducting USAID audits, to meet RIG standards, and as an incentive for retention of personnel in an environment that allows few economic incentives.

Perhaps the most important recommendation, and certainly one that C&A had made throughout the years of the Transparency Program, was that the TSC should take the necessary steps to sell UAPOI's services to other international donor and lending organizations. Doing so would go a long way toward establishing a higher level of credibility for the relatively new TSC and create a source of additional revenue. With an estimated 23 bilateral programs, 19 multilateral programs and 10 international NGOs managing some 250 projects, plus the immense programs of the World Bank and Inter-American Development Bank in Honduras, there is a vast audit market to be tapped.

The needs of DASM were more substantial due to its larger size and more logistically complex functions. As mentioned above, the need for a full complement of personnel (nine vacant positions at that time), well trained in the range of areas necessary for the scope of municipal audits, is key to fulfillment of DASM's role. At a minimum, training is required in the following topics:

- Standards of Accounting and Governmental Audit
- Financial Audit
- Operational Audit
- Forensic Audit (techniques of criminal investigation)
- Evaluation of internal controls and assessment of risks
- Risks and controls in systems environments
- Use of techniques supported by computer
- Audit of the various forms of association of the municipalities

The equipment needs included desktop and laptop computers, printers, a photocopier, calculators, FAX machines, digital cameras as well as desperately needed file cabinets to help put order to the cramped office space.

Another area of concern was the system for development of an annual audit plan for DASM. At the time of the diagnostic the level of completion of the annual plan was minimal. The primary reason for this was the unavailability of the approved budget assets once the work plan moved into implementation. Those resources on paper often did not become available, creating a need to change the plan at every turn. After several revisions during the year, the option of doing internal control reviews in several municipalities by region was substituted for some of the programmed audits.

With the diagnostic delivered and discussed with USAID and TSC management, the C&A consultants proceeded to implement the programmed technical assistance. UAPOI had

been assigned five USAID audits for FY04 for which the C&A long term consultant provided hands on training and quality control of both English and Spanish versions of the audit reports. Eleven audit guides, many produced years ago under previous Mission assistance, were updated and a library of reference copies produced for UAPOI's use in future years. With software purchased under the Task Order, the C&A long-term consultant guided the development of thirteen self-study courses for the TSC, taking the formal training courses produced throughout previous technical assistance periods and converting them to a self-study format. This will be an important tool for the professionalizing of TSC staff. The C&A team alongside UAPOI personnel made a formal demonstration of the self-study courses to TSC management and USAID invitees. Upon completion of the Task Order, C&A recommended delivery of the prepared courses and purchased software to the Office of Institutional Development in order to protect the integrity of the training materials for the long-term benefit of the TSC.

Rafael Reyes, C&A short-term international consultant who had conducted the TSC diagnostic, made four trips to Honduras during the project year, assisting in improving the structure of the annual audit plan process, proposing a formal training plan and developing an audit manual specific to DASM functions. The Manual of Governmental Audit – Municipal Sector, a TO deliverable, is a resource that the TSC (and before, the CGR) has lacked for a long time. Mr. Reyes also offered forty hours of training to the auditors on the materials and effectual use of the manual. Finally, one hundred printed copies of the two-volume manual and ten CD electronic copies were turned over to the TSC.

Perhaps one of the most promising signs of the indirect benefit of the continuing USAID assistance is that, with a great deal of encouragement from C&A and USAID, several other donor programs have initiated assistance to the TSC as well, particularly directed at DASM. Without the commitment of USAID, this would undoubtedly not have happened.

The Mission also recognized the importance of continuing the Transparency/Anti-Corruption Public Awareness Campaign (PAC) and under this Task Order planned for its expansion to the municipal level. The publicity campaign, focused at the national level in previous periods, was now to be adjusted to support local needs and issues. Toward this same goal, the TO provided for developing and implementing PAC transparency programs in four selected municipalities as a stimulus to accountability in the use of local resources through mechanisms of citizen participation and access to information. The only Mission guideline for the selection was that each represents one of the four categories used by the *Secretaría de Gobernación y Justicia* based upon population and budget resources. C&A visited and studied more than two dozen cities before proposing and receiving approval for Choloma, Cortés; El Triunfo, Choluteca; Jacaleapa, El Paraíso; and Jesús de Otoro, Intibucá.

The municipalities were notified of their selection through an official letter and by making contact with as many sectors and civil society leaders as possible. Each was encouraged to develop with C&A's assistance a transparency plan for the municipality, one that could be implemented with USAID technical support. Due to the vastly different situations in the cities, one of the criteria for their selection, there was no one pre-established design for what should be contemplated. An indirect product of this pilot effort was to demonstrate what could and/or should be done under these limitations of time and funding.

The C&A team provided formal training by sector in each of the four municipalities. In most cases, this was in the form of a minimum of twelve hours of a participatory workshop that resulted in an action plan and selection of representatives to move forward with implementation of the plan. Promoting such representation and ensuring that the majority of community issues have a voice increases the chances for full participation and success. The training emphasized the rights and responsibilities of citizens, benefits of access to public information, the importance to Honduras of the Inter-American Convention against Corruption, and experiences in social auditing.

Choloma, with a rapidly growing population estimated at 180,000, is economically important to Honduras as the site of many of the nation's *maquila* operations. Because of the rapid growth rate and the fact that *maquilas* contribute little to municipal coffers while creating an environment prone to social problems, there was not only a need but also a strong interest in the efficient use of limited municipal resources. In C&A's initial visits we found not only the mayor willing to commit to improving transparency but also an exceptional reception by the Chamber of Commerce and Industry which became a strong counterpart to the program's efforts. This partnership opened the door to another—a youth group known as COMVIDA also supported by the Chamber. The most effective counterpart was that of the *Comision de Accion Social Menonita* (CASM) which provided critical logistical support. C&A also sought and after much negotiation received the cooperation of a CSO, *Movimiento Ciudadano*, that had previously focused on corruption issues but had fallen apart due to political differences. These alliances, the general availability of means of communications and an extremely high level of interest in the efficient use of municipal resources contributed to an excellent experience under the Task Order. An active Transparency Commission was formalized in a town hall meeting on August 13, 2004, and is functioning with an aggressive agenda. The mayor has committed to providing office space for the Commission. An estimated eight hundred citizens of Choloma received formal training.

As a dramatic contrast, in the town of El Triunfo the initial reception to the program was restrained at best. El Triunfo's challenges, including extreme poverty, isolation and location next to a border crossing with little or no controls, were well known, even to the Mission. The C&A team found, however, despite limitations of communications, that civil society was relatively well organized around community issues, some related to alleged corruption. The greatest initial obstacle was convincing people, such as social leaders, to not fear talking to the C&A team. Threats of retribution, including violence, are commonly received by those who question authority, so gaining their confidence took time. Once inside their environment of trust, C&A was able to conduct the training events, some in the most remote sites under mango trees but with every available seat full. All attempts, however, to enlist the cooperation and participation of the public sector, even in the name of USAID, fell upon deaf ears. As a matter of fact, as word filtered back to the municipal officials, surely through planted spies, that the training events were encouraging demands for accountability and access to public information, the team began to encounter logistical obstacles to continuing, eventually forcing a move to a neighboring town for the final workshops. When the selected representatives to an eventual Transparency Commission attempted to present a request to the mayor to call a town meeting to formalize the Commission, he not only refused, in defiance of the law, but also made it clear that

he wanted no further part of any transparency efforts in “his” city. Facing the likelihood that the Commission might not survive and the end of the TO period approaching, it was decided to support an alternate plan, that of bringing a group of brave citizens to the capital and providing logistical support so that they could present formal accusations of corruption against the mayor and other local officials. Several of these charges received a lot of attention from the TSC and have since been investigated. While it is unlikely that misused resources will be recovered, the actions of these citizens may have leveled the playing field somewhat and the local pre-candidates for next term are talking about cleaning up corruption as a campaign issue.

The very small but promising town of Jacaleapa was the least successful of the pilot cities. Because of a relatively high education level and a strong commitment on the part of the mayor, it was expected to be one of the easier experiences, but turned out to be anything but that. Participation was very poor and action plans fell apart as soon as the C&A team left town. The only discernible factor that may have contributed to this was that most of the social leaders came from a rather comfortable socio-economic status and may have lacked the incentive to be concerned about the effects of limited or ineffectively used municipal resources.

The fourth city, Jesús de Otoro, provided lots of drama, challenges, and political battles, but ended in a most positive manner. The greatest lesson learned was that of pulling the community together while putting aside political differences, at least momentarily. The mayor, a rather non-political type himself, was key to bringing the citizens around and creating a Transparency Commission, formalized in a town hall meeting on September 1, 2004.

C&A predicts that the two experiences that produced formal citizen committees will be sustainable. The rather alarming situation in El Triunfo has at least been brought to the forefront and should result in a commitment from the next municipal administration to be more accountable. Only the one small town, Jacaleapa, is relatively unchanged by the experience.

To strengthen previous civil society initiatives and encourage others, the SOW allowed for assistance to independent organizations that had taken up the banner for improved transparency and accountability on the part of public officials. This activity made it possible to provide occasional training and support to various CSOs, transparency groups and regional associations of municipalities, and the program offered some level of assistance to almost thirty municipalities from one end of the country to another.

The most successful of these has been Sabanagrande. The well organized Transparency Commission, now two years’ old, continues implementing its work plan of conducting a social audit of every aspect of the municipal government. Two formal reports have been presented to the municipal corporation and the commission is holding the officials accountable for taking action on its recommendations for improving controls. The commission has become an example of what citizens can accomplish and now spends much of its time training in other cities and even outside of Honduras.

It is worth noting that both the experiences in Sabanagrande and Choloma were selected by the Mission as Success Stories for submission to USAID/W.

The TO's SOW also foresaw continuation of the PAC publicity campaign but with a new focus on municipal issues. The original "Transparency is Development" theme was carried on in the Public Service Announcements (PSAs) created by Comunica, the NGO responsible for the design and development throughout the campaign. A new series of PSAs was presented to the Mission for comments and eventual approval. There were a few concerns, so adjustments to the messages were made and then presented to various CSOs for comments. The revised PSAs were again discussed with the Mission, the radio campaign approved for distribution, but with the condition that USAID grantee FOPRIDEH, and AMHON, the Association of Honduran Mayors, be given the opportunity to participate as sponsors of the campaign, in addition to the group of CSOs that had already expressed interest. The Mission requested and obtained a waiver to continue its policy of not publicly taking credit for the sensitive campaign. Since the messages focused upon expecting more of local public officials, the mayors were predictably not thrilled. Despite months of negotiations, AMHON could not be convinced and therefore the PSAs were put on the air with an impressive list of sponsoring organizations. Then, as a direct reaction to the effectiveness of the campaign, AMHON changed its decision and offered to be a sponsor if some further changes could be made. The sponsor group went even beyond that. Comunica prepared three new PSAs, which after all of the required approvals, were distributed throughout the country with AMHON in the credits. It was remarkable and historic that such a campaign, particularly on the subject of combating corruption, was sponsored by a coalition of civil society groups, private sector associations, and both national and municipal government representatives.

Assistance for the National Anti-Corruption Council (CNA) was the most difficult challenge. Just weeks after the signing of the TO in September 2003, the small group of donors that had provided continuous support to the CNA since its inception made an agreement to withhold that assistance to encourage the GOH to transform the CNA into the watchdog organization that had been foreseen and continued to be promised by the administration. This group of donors (referred to as the Petite Committee), including USAID, did not turn its back on the CNA or simply wait for something to change. Instead, the issue was taken to the government via the G-17, the larger group of donors, and for many weeks the Petite Committee worked almost daily on assisting the GOH to transform the CNA into an effective and more representative entity. Once the donor committee had presented its objectives for the CNA along with a firm commitment to support such an organization, the process was taken up by CSOs, led by FOSDEH, which resulted in a proposal to the CNA and GOH for a new and improved legal framework. Months passed, with promises from the administration that the CNA was being transformed but without action. Then, to the surprise of many, the GOH presented a bill to the National Congress for the transformation of the CNA but one that was not representative of all of the input from Honduran civil society. To this date, the issue remains without action by the Congress and the CNA has become virtually inactive as a result.

The TO's original completion date of September 30, 2004, was revised through a no cost extension and the program terminated on November 20, 2004.

As the TO ended, hundreds of pre-candidates promoted campaign promises for the imminent political party selection for the general elections. The term "transparency" could be heard and seen at every turn. One presidential candidate promised to pass a Transparency Law on his first day in office, an unlikely event, but a dramatic use of a term that was virtually

unheard in Honduras a few years ago. Another candidate for Congress printed hand out materials with a background repeating over and over again the PAC's now well known slogan "*No a la corrupción.*" These are signs that Honduras is indeed on the road to transformation.